This Oil and Gas Stock Could Take Off After Posting Strong Q3 Results

Description

Precision Drilling Corporation (TSX:PD)(NYSE:PDS) released its third-quarter results on Friday that showed revenues totaling $315 million, which were up 47% year over year. The company posted a net loss of $26 million for the quarter, but that was an improvement over the $47 million loss that Precision posted a year ago.

Let's take a closer look into the results to see how the company did and if it is a good buy.

Adjusted EBITDA showed strong growth

The company's earnings before gains, taxes, foreign exchange, deprecation, and other items was $73 million and showed a 77% increase from 2016. This is especially impressive when you consider that the company saw its billable day rates drop year over year. In 2016, the company averaged revenue per utilization day that was 5% higher in Canada and 28% more in the U.S.

However, the company's improved efficiency has helped to drive overall results, as the operating costs per utilization day declined by 3% in Canada and by 18% across U.S. operations.

The company saw a big improvement in cash flow

Precision saw its funds from operations nearly triple with the company accumulating $85 million in cash this quarter compared to $31 million a year ago. With reduced capital spending, the company was able to see a $36 million increase in total cash, whereas last year Precision was $103 million in the negative as it repurchased over $55 million in unsecured notes.

Strong cash flows put Precision in a good position to withstand low oil prices and enables the company to be flexible at a time when many in the industry are struggling.

Higher oil prices are resulting in more planned drilling activity for next year

The company is starting to see more optimism from its customers now that oil prices are staying above $50 a barrel, stating in its release that "these fundamentals form a constructive environment as our customers finalize 2018 drilling budgets, with customer bookings for additional rig deployments in late Q4 and Q1 2018 supporting this view."

Even this year, the company has already seen an increase in the number of rigs it has been active on. As of the end of September, the company had 118 active rigs, which was a 76% increase over last year's activity. Activity in Canada was up 58%, and in the U.S. the number of active rigs has more than doubled.

If, unlike last year, the price of oil can stay above $50, then there could be a significant increase in activity for 2018. Although 2017 started strong with oil prices reaching nearly $58, ultimately, the commodity crashed to under $44 before beginning its latest recovery.

Is Precision a buy today?

With the progress that Precision has been making, and the increased demand the company has seen, it may finally be time to bet on oil and gas stocks again. Earlier this year we saw companies struggle, and even **Cenovus Energy Inc.** traded at a big discount this year, and the fear was that oil and gas would be doomed.

However, as oil prices have picked up and are staying above $50, there is hope for Precision to benefit from the increased demand. Given that the company is already producing strong results, if oil prices can continue to increase, then the stock will definitely take off.

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